

JANUARY 15, 1976

UPDATING THE WORLD MONETARY SYSTEM

ANNCR: THE VOICE OF AMERICA BRINGS YOU NOW... A MATTER OF ECONOMICS... WEEKLY REPORTS DEALING WITH ECONOMIC QUESTIONS IN THE UNITED STATES AND AROUND THE WORLD. TODAY, WILLIAM LEAVITT'S REPORT ON WHAT HAPPENED AT THE RECENT MEETING OF THE INTERNATIONAL MONETARY FUND AND WORLD BANK AT KINGSTON, JAMAICA. DECISIONS WERE TAKEN AT THAT MEETING, WHICH IN ONE WAY OR ANOTHER, AFFECT EVERYONE WHO EARNS AND SPENDS MONEY.

VOICE: SOME EXPERTS ARE CALLING THE BASIC ACHIEVEMENT OF THE JANUARY MONETARY FUND -- WORLD BANK MEETING IN JAMAICA TRULY HISTORIC. THEY'RE REFERRING TO THE AGREEMENT OF FINANCE MINISTERS AT THE I-M-F CONFERENCE TO LEGITIMIZE THE SO-CALLED FLOATING CURRENCY EXCHANGE RATE SYSTEM THAT'S BEEN OPERATING BY CONSENSUS FOR THE PAST FEW YEARS. FLOATING EXCHANGE MEANS THAT NATIONAL CURRENCIES FIND THEIR VALUE WITH RESPECT TO EACH OTHER ACCORDING TO SUPPLY AND DEMAND IN WORLD MONEY MARKETS, INSTEAD OF BEING VALUED IN ACCORDANCE WITH FIXED RATES OF EXCHANGE. SO, VIEWED IN PERSPECTIVE, THE FLOATING EXCHANGE RATE AGREEMENT AT JAMAICA REPLACES THE HISTORIC BRETTON WOODS AGREEMENT OF 1944, WHICH ESTABLISHED THE NON-DEFUNCT FIXED-RATE-OF-EXCHANGE RULE.

PRESENT-DAY FINANCIAL REALITY LED TO THE JAMAICA FLOATING-EXCHANGE-RATE AGREEMENT TO REPLACE FIXED RATES OF EXCHANGE. BACK IN 1944, AT THE TIME OF THE

BRETTON WOODS AGREEMENT, THE U-S DOLLAR WAS THE WORLD'S DOMINANT CURRENCY. EUROPE AND MUCH OF THE REST OF THE WORLD LAY IN ECONOMIC RUIN. AND ABOUT THE ONLY THING THAT MADE FINANCIAL SENSE WAS TO PEG EXCHANGE RATES TO THE AMERICAN DOLLAR, LINKED WITH AN OFFICIAL PRICE FOR GOLD. UT AS EUROPE AND ASIA RECOVERED, AND REJOINED THE WORLD OF GLOBAL COMMERCE, SERIOUS INEQUITIES DEVELOPED. DOLLARS POURED INTO FOREIGN COFFERS, DOLLARS THAT WERE CONVERTIBLE ON DEMAND TO GOLD. THOSE DRAWINGS DRAINED AMERICAN RESERVES. ALSO, BECAUSE OF THE NECESSITY TO MAINTAIN FIXED EXCHANGE RATES, AMERICAN GOODS WERE OFTEN AT AN ARTIFICIAL COMPETITIVE DISADVANTAGE IN THE WORLD MARKET. THIS LED TO THE AMERICAN DECISION TO STOP THE PRACTICE OF FREELY CONVERTING FOREIGN-HELD DOLLARS TO GOLD ON DEMAND, AND EVENTUALLY TO AMERICAN DEVALUATION OF THE DOLLAR.

OUT OF ALL THIS CAME INFORMAL IMPLEMENTATION OF THE FLOATING EXCHANGE SYSTEM, WHICH FOR THE MOST PART, IN RECENT YEARS, HAS WORKED QUITE WELL IN THE WORLD OF COMMERCE. IMPLICIT IN THE AGREEMENT IS A WILLINGNESS ON THE PART OF GOVERNMENTS TO CONSULT WITH EACH SO THAT SO-CALLED INTERVENTION CAN OCCUR TO PREVENT WILD FLUCTUATIONS IN EXCHANGE RATES.

INTERVENTION MEANS GOVERNMENT PURCHASE OF CURRENCIES TO MAINTAIN A PROPER BALANCE OF SUPPLY AND DEMAND

AND TO PREVENT OVRSPECULATION IN WORLD MONEY MARKETS THAT COULD HURT INDIVIDUAL CURRENCIES.

OTHER IMPORTANT THINGS HAPPENED AT THE JAMAICA MEETING OF THE I-M-F AND WORLD BANK. THE I-M-F AGREED TO DISPOSE OF A MAJOR PORTION OF ITS GOLD HOLDINGS AT MARKET PRICES. MUCH OF THE PROFIT -- THE DIFFERENCE BETWEEN THE LOW OFFICIAL PRICE OF GOLD AND THE HIGH MARKET PRICES -- WILL GO TO THE POOREST COUNTRIES. AND THE FINANCE MINISTERS AGREED -- AFTER DRAWN-OUT NEGOTIATIONS BETWEEN THE RICHER AND POORER COUNTRIES BELONGING TO THE 128-MEMBER FUND -- TO TEMPORARILY INCREASE THE BORROWING RIGHTS FOR MEMBER NATIONS. THE INCREASE -- ABOUT THREE-THOUSAND MILLION DOLLARS WORTH -- APPLIES TO ALL I-M-F MEMBERS. BUT THE REAL BENEFICIARIES WILL BE THE DEVELOPING NATIONS. THE TEMPORARY INCREASE IS A STOP GAP. EVENTUALLY, THE I-M-F'S ASSETS WILL BE FURTHER INCREASED, PERMITTING LARGER LOANS.

SOME OBSERVERS SAY THIS REALLY CHANGES THE I-M-F FROM A LENDING AGENCY TO AN AID AGENCY. BUT, OVERALL, THE CONDITIONS THAT APPLY TO I-M-F LOANS, REMAIN. THAT POINT WAS ARGUED STRONGLY BY THE UNITED STATES AT THE JAMAICA MEETING AND LARGELY ACCEPTED. THE AMERICAN POSITION WAS, AND REMAINS, THAT THERE ARE OTHER INTERNATIONAL INSTITUTIONS IN THE BUSINESS OF

AID PER SE -- AND THAT THEY SHOULD CONTINUE TO BE  
THE MAIN SOURCES OF GRANTS TO DEVELOPING COUNTRIES.

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ANNCR: YOU'VE BEEN LISTENING TO A MATTER OF ECONOMICS, A WEEKLY  
VOICE OF AMERICA PROGRAM ON ECONOMIC AFFAIRS. JOIN  
US AGAIN NEXT (\_\_\_\_\_) (AT THIS TIME) FOR ANOTHER  
PROGRAM IN THIS SERIES. THIS IS \_\_\_\_\_.

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WJL/PBM